



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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August 11, 2005

TO: Representative Jim McIntire, Chair
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FROM: ChangMook Sohn, Executive Director
Economic and Revenue Forecast Council

SUBJECT: August 10, 2005 REVENUE COLLECTION REPORT

This was another good month for General Fund collections. General Fund-State (GFS) collections totaled \$1,046.4 million in the July 11–August 10, 2005 collection period. Tax payments were \$197.3 million more than the estimate for the period. However, the variance this month is once again distorted due to special factors, primarily the timing of refunds. The June forecast assumed that the refunds associated with the State Supreme Court decision that abolished the estate tax would be issued in this month; however, these refunds were issued last month instead. In addition, \$12.4 million in refunds associated with the Agrilink court decision were expected this month; however, only about a thousand dollars were issued. If the estate tax and Agrilink refund estimates are excluded, collections this month are \$28.5 million, 2.8 %, above the estimate in the July 11–August 10 collection period. Special factors aside, revenue act (retail sales, business and occupation, use and public utility) taxes, real estate excise tax, and the General Fund portion of the cigarette tax, were above the estimate for the month. Liquor taxes, property and other sources were a little less than expected for the period. Despite the drag on the economy of record high oil prices, spending remains strong and the economy continues to produce more revenue than expected.

U.S. payroll employment was better than expected in June. The U.S economy added 207,000 jobs in June and the number for May was revised up by 21,000. The unemployment rate remains at 5.0 percent in June, the lowest level since September 2001. The Bureau of Economic Analysis reported that real GDP, the broadest measure of economic performance, increased at an annual rate of 3.4 percent in the second quarter of 2005. While this was slower than in the first quarter, it is stronger than assumed in the June forecast. In addition, the Conference Board reported that the U.S. Index of Leading Indicators rose in June following a revised no-change in May and an increase in April. This index has now increased or remained unchanged for the last three months, suggesting continued economic growth ahead. Less bullish was the Conference Board's report that its Index of Consumer Confidence fell in July after a strong increase in June.

Revenue Act collections were \$40.3 million more than expected this month. Some of this (\$12.4 million) is because less Agrilink related refunds were issued this period than expected. The majority of the higher collections, however, reflects a very healthy economy. Higher collections this month more than offset last month's shortfall. Cumulatively in the two months since the June forecast, Revenue Act receipts are \$33.1 million higher than expected (\$20.7 excluding the Agrilink

refunds.) Revenue Act growth accelerated this month. Revenue Act receipts were 11.1 percent higher than a year-ago in the July 11–August 10 collection period (primarily reflecting June 2005 business activity). This is the strongest increase since January. Revenue Act tax payments increased 7.3 percent last month and were up 10.7 percent two months ago. Revenue Act collection growth has averaged a remarkable 9.8 percent over the last three months and has averaged 8.4 percent higher than a year ago in the last twelve months.

Preliminary industry data for the July 11 to August 10, 2005 collection period based on payment data of 15,700 taxpayers who filed electronically show strong growth pretty much across-the-board. Businesses in the retail trade and food services sector reported a 10.3 percent increase in tax payments. This is the strongest retailing growth since the recession. Last month retailers reported a 7.3 percent gain. All retail NAICS sectors, with the exception of food stores, reported increases. Double digit gains were reported by electronics and appliance stores (+20.2 percent), motor vehicles and parts retailers (+14.9 percent), furniture and home furnishing retailers (+13.3 percent), non-store retailers (+12.0 percent), building materials/hardware stores (+10.0 percent), apparel and accessories retailers (+10.8 percent), and gasoline and convenience stores (+10.4 percent). Overall, tax payments by non-retail trade and food services business were 12.0 percent higher than a year ago. Last month this category reported a 9.4 percent increase. As was the case last month, all major sectors increased. Sectors with double digit increases include: construction (+19.3 percent), finance and insurance (+32.5 percent), transportation and warehousing (+25.9 percent), and utilities (+13.5 percent). The strong real estate market continues to influence overall spending. Construction/real estate related sectors (construction, building materials/hardware, furniture and home furnishings, electronics and appliances) again grew noticeably faster (+14.3 percent) than other sectors (+10.3 percent) as has been the case for fifteen of the last sixteen months.

Because the estate tax related refunds were issued last month instead of this month as assumed in the forecast, non-revenue act General Fund taxes were \$157.0 million more than the estimate for the month, offsetting last month's shortfall. Excluding these refunds, non-revenue act taxes were \$0.6 million above the estimate for the month. Higher than expected real estate excise tax (+\$7.5 million) and cigarette taxes (\$540,000) slightly more than offset weaker than expected liquor taxes (-\$1.5 million), property taxes (-\$3.8 million) and a variety of other sources. Cumulatively for the two months since the June forecast, non-revenue act taxes are \$20.7 million above the estimate primarily due to higher than expected real estate excise tax (\$14.2 million) and property tax (+\$4.2 million).

Although mortgage rates have started to inch up in recent weeks, they remain very low by historical standards and are still lower than expected in the June forecast. The low mortgage rates, easy credit and a healthy economy all have contributed to another stronger than expected month for real estate activity and real estate excise tax payments. Although there has been some deceleration in growth, with rates lower than expected, activity remains stronger than assumed in the forecast. Taxable activity (based on closings in June which reflect tax payments to the state in July) was 18.4 percent higher than a year-ago. Last month activity was up 28.4 percent and two months ago it increased 27.7 percent. The majority of the increase was again due to an increase in the value per transaction (10.4 percent) however, growth of transactions was also strong (+7.2) for the month. Last month the average value per transaction increased 14.9 percent while the number of transactions was up 11.7 percent.

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Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$70,000 above the estimate for the month. For the two months since the June forecast, Department of Licensing GFS collections are \$561,000 higher than estimated.

The attached Table 1 provides a comparison of collections with the June 2005 forecast for the July 11 – Aug 10, 2005 collection period and cumulatively since the June 2005 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

TABLE 1
Revenue Collection Report
August 10, 2005 Collections Compared to the June 2005 Forecast
Thousands of Dollars

| <u>Period/Source</u> | <u>Estimate*</u> | <u>Actual</u> | <u>Difference</u> | |
|--|--------------------|--------------------|-------------------|----------------|
| | | | <u>Amount</u> | <u>Percent</u> |
| July 11 - August 10, 2005 | | | | |
| Department of Revenue-Total | \$846,465 | \$1,043,744 | \$197,279 | 23.3% |
| Revenue Act** (1) | 900,772 | 941,090 | 40,319 | 4.5% |
| Non-Revenue Act(2) | (54,306) | 102,653 | 156,960 | -289.0% |
| Liquor Sales/Liter | 10,532 | 9,073 | (1,459) | -13.9% |
| Cigarette | 4,457 | 4,997 | 540 | 12.1% |
| Property (State School Levy)- net after transfer | (10,509) | (14,276) | (3,767) | 35.8% |
| Property tax collections | 13,930 | 10,163 | (3,767) | -27.0% |
| transfer to the Student Achievement Acct. | (24,439) | (24,439) | 0 | 0.0% |
| Estate | (155,016) | 1,256 | 156,272 | NC |
| Real Estate Excise | 80,558 | 88,023 | 7,465 | 9.3% |
| Timber (state share) | 0 | 0 | 0 | NA |
| Other | 15,671 | 13,580 | (2,091) | -13.3% |
| Department of Licensing (2) | 2,544 | 2,613 | 70 | 2.7% |
| Total General Fund-State*** | \$849,009 | \$1,046,357 | \$197,348 | 23.2% |
| Cumulative Variance Since the June 2005 Forecast (June 11, 2005 -August 10, 2005) | | | | |
| Department of Revenue-Total | \$1,967,148 | \$2,020,999 | 53,852 | 2.7% |
| Revenue Act** (3) | 1,643,462 | 1,676,601 | 33,139 | 2.0% |
| Non-Revenue Act(4) | 323,685 | 344,398 | 20,712 | 6.4% |
| Liquor Sales/Liter | 21,460 | 17,635 | (3,825) | -17.8% |
| Cigarette | 8,983 | 10,230 | 1,247 | 13.9% |
| Property (State School Levy)-net after transfer | 263,536 | 267,723 | 4,187 | 1.6% |
| Property tax collections | 302,639 | 306,825 | 4,187 | 1.4% |
| transfer to the Student Achievement Acct. | (39,102) | (39,102) | 0 | 0.0% |
| Estate | (153,815) | (150,741) | 3,074 | NA |
| Real Estate Excise | 146,727 | 160,890 | 14,163 | 9.7% |
| Timber (state share) | 0 | 0 | 0 | NA |
| Other | 36,795 | 38,662 | 1,867 | 5.1% |
| Department of Licensing (4) | 7,826 | 8,386 | 561 | 7.2% |
| Lottery (GF portion) | 0 | 0 | 0 | NA |
| Total General Fund-State*** | \$1,974,973 | \$2,029,386 | \$54,412 | 2.8% |

1 Collections July 11 - August 10, 2005. Collections primarily reflect June 2005 activity of monthly taxpayers, and quarter 2, 2005 activity of quarterly filers.

2 July 1-31, 2005 collections.

3 Cumulative collections, estimates and variance since the June 2005 forecast; (July 11 - August 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2005 forecast; (June & July 2005) and revisions to history.

* Based on the June 2005 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 98% of total General Fund-State revenue.

TABLE 2
June 10, 2005 Collection Report - Revised Data
Thousands of Dollars

| <u>Period/Source</u> | <u>Collections</u> | | <u>Difference</u> | |
|---|--------------------|----------------|-------------------|----------------|
| | <u>Preliminary</u> | <u>Revised</u> | <u>Amount</u> | <u>Percent</u> |
| June 11 - July 10, 2005 | | | | |
| Department of Revenue-Total | \$977,255 | \$977,255 | \$0 | 0.0% |
| Revenue Act (1) | 735,511 | \$735,511 | (0) | -0.0% |
| Non-Revenue Act(2) | 241,745 | \$241,745 | (0) | -0.0% |
| Liquor Sales/Liter | 8,562 | \$8,562 | 0 | 0.0% |
| Cigarette | 5,232 | \$5,232 | 0 | 0.0% |
| Property (State School Levy)-net | 281,999 | \$281,999 | (0) | -0.0% |
| Property tax collections | 296,662 | 296,662 | (0) | -0.0% |
| transfer to the Student Achievement Acct. | (14,663) | (14,663) | 0 | NA |
| Estate | (151,998) | (151,998) | 0 | -0.0% |
| Real Estate Excise | 72,867 | 72,867 | 0 | 0.0% |
| Timber (state share) | 0 | 0 | 0 | NA |
| Other | 25,082 | 25,082 | (0) | -0.0% |
| Department of Licensing (2) | 5,490 | 5,773 | 283 | 5.2% |
| Lottery (2) | 0 | 0 | 0 | NA |
| Total General Fund-State*** | 982,746 | 983,028 | \$282 | 0.0% |

Cumulative Receipts: June 11 - July 10, 2005 & Revisions to History

| | | | | |
|---|------------------|------------------|--------------|-------------|
| Department of Revenue-Total | 977,255 | \$977,255 | \$0 | 0.0% |
| Revenue Act (3) | 735,511 | \$735,511 | (0) | -0.0% |
| Non-Revenue Act(4) | 241,745 | \$241,745 | (0) | -0.0% |
| Liquor Sales/Liter | 8,562 | \$8,562 | 0 | 0.0% |
| Cigarette | 5,232 | \$5,232 | 0 | 0.0% |
| Property (State School Levy)-net after transfer | 281,999 | \$281,999 | (0) | -0.0% |
| Property tax collections | 296,662 | 296,662 | (0) | -0.0% |
| transfer to the Student Achievement Acct. | (14,663) | (14,663) | 0 | NA |
| Estate | (151,998) | (151,998) | 0 | -0.0% |
| Real Estate Excise | 72,867 | 72,867 | 0 | 0.0% |
| Timber (state share) | 0 | 0 | 0 | NA |
| Other | 25,082 | 25,082 | (0) | -0.0% |
| Department of Licensing (4) | 5,522 | 5,773 | 251 | 4.5% |
| Lottery (4) | 0 | 0 | 0 | NA |
| Total General Fund-State*** | \$982,778 | \$983,028 | \$250 | 0.0% |

Preliminary. Reported in the July 10, 2005 collection report.

1 Collections June 11 - July 10, 2005. Collections primarily reflect Mya 2005 business activity of monthly taxpayers

2 June 1-30, 2005 collections.

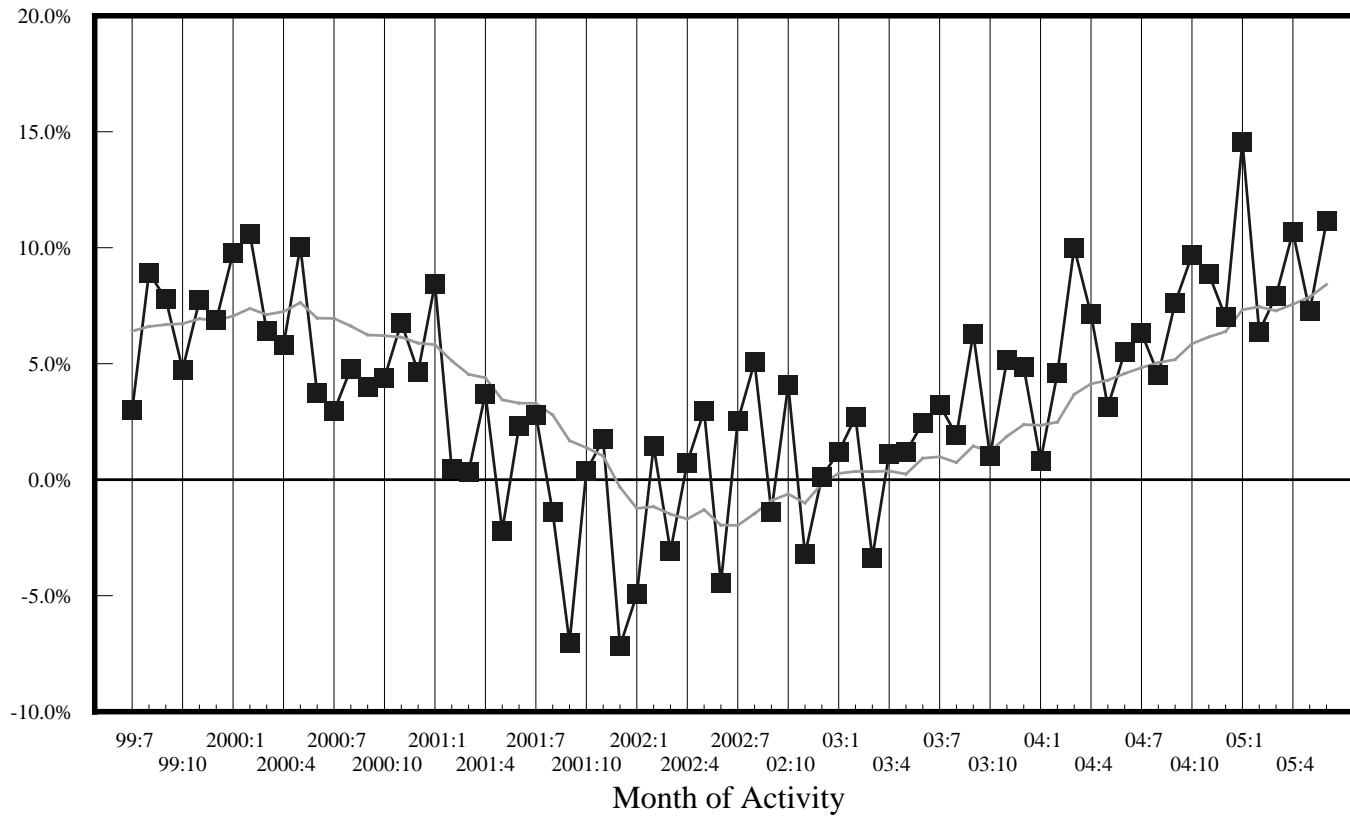
3 Cumulative receipts since the June 2005 forecast: June 11- July 10,2005 & revisions to history.

4 Cumulative receipts since the June 2005 forecast (June 2005) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

* Adjusted for new legislation and special factors